

Budget 1999-2000

Speech of

Shri Yashwant Sinha
Minister of Finance

27th February, 1999

PART A

Sir,

I rise to present the budget for the year 1999-2000.

Introduction

2. For the first time after Independence with the enthusiastic support of all political parties in Parliament, it has been possible for me to discard the long standing tradition of British Raj of presenting the budget at 5 PM. A new beginning is being made today as I present the last Budget of 1900's. I assure you this is not the only new feature. There are many more in this budget.

The Economic Context

3. The decade of the nineties has witnessed extraordinary changes. It began with the collapse of the centrally planned economies; it is ending with market economies facing a serious crisis.

4. The year 1998 particularly has been a year of unprecedented global turmoil. The East Asian financial crisis took a heavy toll of important economies in the region and spread to other countries. Japan continued in recession and in August 1998 severe crisis afflicted Russia. By January 1999, the contagion had spread to Brazil triggering massive capital flight and a steep depreciation of the currency. World output growth dropped below 2%, the growth of world trade decelerated sharply, commodity prices fell steeply, currencies were savaged and capital flows to developing countries declined sharply.

5. In India, we had to contend with the additional challenge of economic sanctions imposed on us after the Pokhran nuclear tests. While we have not remained unaffected by these developments, we have reasons to be satisfied at the way we have withstood the impact of these challenges. Despite the hostile economic

environment, our GDP growth in 1998-99 has accelerated to 5.8% compared to 5% last year. Our farmers have led the way with 5.3% growth in agriculture and allied sectors. Since the beginning of 1998-99, we have added \$2 billion to our foreign currency reserves as of February 23, 1999 and we have successfully curbed undue volatility in the forex market. The current account deficit in the balance of payments is estimated at a modest 1.4% of GDP compared to 1.6% in 1997-98. Although inflation had risen sharply during the year, we have succeeded in bringing it down to below 5% now. All this is described in detail in the Economic Survey presented to Parliament a few days ago.

6. However, there is no room for complacency. The challenges before us, both international and domestic, remain grave. The fiscal and revenue deficits of both Centre and States are still too high and are undermining our ability to bring down interest rates, stimulate investment and growth, curb inflationary potential, generate resources for priority, non-interest expenditure needs and raise exports.

7. Above all, despite our continuing concern year after year, we have made only a limited impact on the problems of poverty and unemployment. The various schemes of the Government in this area lack focus and convergence. The delivery systems need to be cost effective and community based. The fruits of economic development should largely reach the poor and the vulnerable specially the Scheduled Castes, Scheduled Tribes and Other Backward Classes who, in turn, need to be empowered fully. Without this, I am afraid, our planning will be devoid of any direction.

8. The broad strategy of this Budget therefore is six-fold:

- * Begin a medium-term process of revenue and fiscal deficit reduction, along the lines indicated in the Ninth Plan, which will free more resources for productive investment and growth and contain inflation.
- * Undertake a major reform of indirect taxes to promote productivity and employment.
- * Deepen and widen economic reforms in all major sectors and accelerate internal liberalization to release the productive energies and creativity of our farmers, manufacturers, traders and service providers.
- * Safeguard the economy from external shocks, revive exports and stimulate the domestic engines for growth revival.
- * Strengthen the knowledge-based industries and thus prepare ourselves for the challenges of the new millennium.

Last but not the least

- * Revitalise and redirect public programmes for human development, encompassing food security, health care, education, employment and shelter. Their focus should be on empowering the poor and the weaker sections, especially those belonging to Scheduled Castes, Scheduled Tribes and Other Backward Classes.

Agriculture and Rural Development

9. This year's growth performance has once again underlined the critical importance of agriculture in our economy. I propose a multi pronged programme to further strengthen our rural economy.

10. On water, which is the lifeblood of agriculture, I propose the following initiatives:

- * It is important to unify the multiplicity of watershed development programmes within the framework of a single national initiative - a National Movement of Watershed Development that fosters implementation ability at the local level and creates community infrastructure for micro watershed projects through active involvement of Gram Panchayats, Local Self Help Groups and NGOs. For this, a Watershed Development Fund will be established with NABARD to cover 100 priority districts within 3 years. The Central Government will provide necessary matching assistance to NABARD. This will create income generating opportunities for the landless and the poor; especially those belonging to the Scheduled Castes, Scheduled Tribes and Other Backward Classes.
- * The Accelerated Irrigation Benefit Programme aims to expedite the completion of ongoing irrigation projects by providing matching assistance to States. However, the water rates in most States do not even cover full Operations and Maintenance costs. To encourage better management and maintenance of costly irrigation assets, the Centre will provide larger financial assistance to States that rationalise their water rates to cover at least O&M costs.
- * In order to promote farmer participation in water management, the Centre will provide a one time management subsidy and recurring assistance over an initial period of 3 years to all registered Water Users Associations, linked to incremental water rate collection. This will supplement the States' own contribution.

11. Water and credit must flow together for maximum impact. Last year, I had announced a number of initiatives for improving the flow of credit from the banking sector to agriculture. I am happy to report to this House that institutional credit flow to agriculture has shown a 20% increase in the current year, taking the level to about Rs.38,000 crore as compared to Rs.31,698 crore in the previous year. I propose to take the following further measures for improving flow of agricultural and rural credit:

- * The Rural Infrastructure Development Fund (RIDF) has emerged as an important scheme for financing rural infrastructure projects of the State Governments. Last year, I had announced an allocation of Rs.3,000 crore from the banking sector under RIDF IV. I propose to continue the scheme. The corpus of RIDF V will be raised to Rs.3,500 crore. The repayment period is also being extended from five to seven years. The scope of RIDF will also be widened to allow lending to Gram Panchayats, Self-Help Groups and other eligible organisations for implementing village level infrastructure projects.
- * In line with my announcement last year, the Kisan Credit Card Scheme has been launched by all public sector banks. These Cards provide timely credit to farmers in a flexible and cost effective manner. So far, six lakh Kisan Credit Cards have been issued. I am asking public sector banks to

extend the coverage so that twenty lakh farmers can benefit from this scheme in the coming year.

- * The reform measures initiated to strengthen and restructure the Regional Rural Banks will continue. A provision of Rs.168 crore is being made for recapitalisation of RRBs.
- * Micro enterprises have great potential for generating productive employment, especially in rural areas. NABARD and SIDBI have launched schemes for promotion of Self Help Groups and NGOs as a channel for flow of funds to micro enterprises. Following last budget's initiative, NABARD is likely to cover about 15,000 Self Help Groups in 1998-99, as against the target of 10,000. I am asking NABARD and SIDBI to redouble their efforts in this direction and ensure coverage of at least 50,000 Self Help Groups during the course of the next year.
- * To augment the flow of credit for food and agro processing industries, lending by banks to this sector will be treated as priority sector lending.

12. Today, we have a very weak post-harvest storage and marketing infrastructure. This causes tremendous national loss. To overcome this problem, I propose to introduce a new credit-linked capital subsidy scheme for construction of cold storages and godowns. This scheme, which will be implemented by the Ministry of Agriculture with the help of NABARD, will help create additional cold storage capacity of 12 lakh tonnes and will rehabilitate and modernise 8 lakh tonnes of existing units over the next few years. We also propose to create 4.5 lakh tonnes of onion storage capacity. This House, especially the main opposition party, can readily appreciate our special concern for onions.

13. Fragmentation of agricultural land holdings undermines productive use of land. Some States have lagged behind in attending to this important task of land reforms. To accelerate reforms in this direction, the Central Government will provide special financial assistance to States, which undertake this task.

14. One of the problems with effective distribution and use of fertilizer is the mismatch between its demand and availability at the on-set of the sowing operations. In order to tackle this problem, I propose to experiment with an incentive discount to farmers for lifting fertilizer from the cooperative societies during the lean months of April and May.

15. The on-going schemes for the development of degraded and wastelands will be reoriented to permit local Self Help Groups and the landless poor, specially Scheduled Castes, Scheduled Tribes and Other Backward Classes, to develop and utilise such lands in each village. The whole programme will be based on participatory management with the Gram Panchayat having a pivotal role. During 1999-2000, we will earmark a total amount of Rs.50 crore to take up this scheme on an experimental basis in those States that are prepared to put in a matching contribution.

National Programme for Rural Industrialisation (NPRI)

16. Rural Industrialisation is important for creating employment opportunities, raising rural incomes and strengthening agriculture-industry linkages. Thus far, it has been pursued by a multiplicity of government agencies. However, the impact of

these programmes at the grass roots level has remained modest. We must integrate the efforts of the various government agencies and ensure active community participation. Accordingly, I propose a National Programme for Rural Industrialisation (NPRI) with the mission to set up 100 rural clusters every year to give a boost to rural industrialisation. This is being done for the benefit of rural artisans and unemployed youth. In the long run, it will reduce rural urban disparities. The Small Industry Development Organisation will coordinate this programme. The Khadi and Village Industries Commission (KVIC) will play an important role in this. The marketing infrastructure available with KVIC would be put to optimum use in this effort. It will go a long way in the marketing of rural industrial products if KVIC could develop its own brand name for the purpose. The proposed rural clusters will be spread throughout the country, with a reasonable balance between high potential and backward rural areas.

National Human Development Initiative (NHDI)

17. Even a half-century after Independence, the levels of human development in India lag behind most other countries. The essence of human development should be to empower vulnerable groups in society to take advantage of the process of development. Empowerment, in my view, entails access to five basic requirements, namely, Food, Health Care, Education, Employment and Shelter. It is our resolve to make them available to the entire population of this country within a decade. With this initiative for people-centred development, we will be implementing the Prime Minister's mandate for 'reforming the reforms'.

Food: The Targeted Public Distribution System has been designed to provide food security, especially to those below the poverty line, on the basis of subsidised foodgrain prices. With greater involvement of Gram Panchayats in its supervision and implementation, the Targeted Public Distribution System will be suitably strengthened to ensure its proper coverage and make it efficient.

The Targeted Public Distribution System does not however adequately cover the indigent senior citizens who have no income of their own and none to take care of them in the village. I propose to launch a new scheme, "Annapurna" in 1999-2000, to provide food security to such persons. "Annapurna" will provide 10 kg. of foodgrains per month free of cost to all indigent senior citizens who are eligible for old age pension but are presently not receiving it and whose children are not residing in the same village. The number of persons benefitting from the scheme will not for the present exceed 20% of the old age pensioners within that State. The Gram Panchayat will be required to identify, prepare and display a list of such persons after giving wide publicity.

Health Care: The expansion and improvement of health infrastructure and services are key goals set out in the Special Action Plan announced by the Prime Minister. While an extensive network for primary health care has been created in most rural areas, inadequate community participation and supervision has constrained use of these facilities to much below their capacity. Our goal is to integrate and synergise the existing programmes for health care, family welfare, rural development and related areas in different Central Ministries and to deploy the available resources so that every household secures ready access to both primary health care and family welfare

services. The Central Government will provide funds to such Gram Panchayats that come forward with their own contribution to set up primary health care facilities in their respective areas. This will match similar assistance from the concerned State Government.

Education: Access to primary education is critical for empowering people. Several States have recorded considerable success with their respective models of education guarantee schemes. I propose to implement an Education Guarantee Scheme at the national level. The aim will be to provide an elementary school in every habitation, which does not have one within a radius of 1 km. Initially, the local community would provide the premises and select a local person as a part time teacher. Teaching material and other assistance will be provided by the Central and the State Governments, while Gram Panchayats will mobilise contribution from the local community in cash and kind for running the school for at least two years. After the school has functioned successfully for two years, it will be upgraded on a permanent basis. At least 1.8 lakh such schools will become operational during the next three years of the Ninth Plan. The resources available under the existing Centrally sponsored education schemes will be mobilised to support this important initiative. This initiative will provide an opportunity to the rural poor, especially those belonging to the Scheduled Castes, Scheduled Tribes and Other Backward Classes to secure education for their children. This is the first and most important step towards their empowerment.

Employment: At present, a variety of self-employment and wage employment schemes are in operation. To enhance the effectiveness of these schemes in generating income-earning opportunities for the rural poor, Government will follow a four-pronged strategy with the common theme of ensuring greater involvement of Panchayati Raj institutions:

- * The existing scheme of Jawahar Rozgar Yojana will be modified to ensure that all funds are placed at the disposal of Gram Panchayats for creation of rural infrastructure. They will have the sole authority for preparation of annual action plans and their implementation, including the power to execute works with the approval of the Gram Sabha. The modified scheme will be called "Gram Samridhi Yojana".
- * The wage employment programme of Employment Assurance Scheme will be implemented at the district/block levels, with the selection of works being decided by the Zila Parishads in consultation with the other elected representatives. The Employment Assurance Scheme presently operates through out the country. We will give special priority to areas suffering from endemic labour exodus.
- * The Gram Panchayat will maintain a live employment register available to the Gram Sabha and public for scrutiny. To ensure that the funds under the wage employment schemes are spent with the active involvement of the elected Panchayati Raj institutions, it is proposed that while 80% of funds would be released to implementing agencies as per normal procedure, the remaining 20% will be released as an incentive only if the State has put in place elected and empowered Panchayati Raj institutions.

- * The plethora of self-employment programmes for the rural poor will be merged into a single programme called “Swaran Jayanti Gram Swa-Rozgar Yojana”, which will have greater participation of the Gram Panchayats. This will enable the implementing agencies to have greater flexibility in execution to meet the needs of the local people.

These schemes will largely benefit the poor and the unemployed youth in the rural areas, especially those belonging to the Scheduled Castes, Scheduled Tribes and Other Backward Classes.

Shelter: The rural housing shortage at the beginning of 1997-98 was estimated at nearly 140 lakh units, which included shelterless households and those with only kutchra dwellings. Government’s priority will be to provide shelter to all shelterless poor households by the end of the Ninth Plan. The task of upgradation of kutchra dwellings of poor households will be completed by the end of the Tenth Plan. Furthermore, to ensure integrated provision of shelter, sanitation and drinking water, we propose to launch a comprehensive “Samagra Awas Yojana”, which will embrace existing programmes including Indira Awas Yojana.

18. The National Human Development Initiative will go a long way in empowering the weakest sections of the population and improving the quality of rural life. This will minimise the rural-urban disparities. The effectiveness of this initiative will depend critically on the extent to which the Gram Panchayat, as an elected body, can assume a pivotal role in implementing the various components of the programmes. I propose to declare 1999-2000 as the “Year of the Gram Sabha” to affirm our resolve to set the process of decentralised democracy in motion, with human development as the core objective of planning.

Housing

19. Turning to shelter in urban areas, we have already taken major steps for encouraging housing development, including repeal of the Urban Land (Ceiling and Regulation) Act. To improve the flow of credit for housing I propose the following measures:

- * To develop the primary and secondary market for housing mortgages, it is necessary to simplify the present legal provisions for foreclosure and transfer of property. I propose to make necessary changes in the foreclosure laws in the housing sector through amendments in the National Housing Bank Act.
- * To strengthen housing finance companies, I will be proposing changes in the tax treatment of the income earned on non-performing assets.
- * To enhance the availability of banking funds to the housing sector, RBI will be advising scheduled commercial banks to lend up to 3% of their incremental deposits for housing finance.
- * National Housing Bank is implementing the Golden Jubilee Rural Housing Finance Scheme for which I announced a target of 1 lakh dwelling units last year. Encouraged by the satisfactory response to this scheme, I propose to increase this target by 25% to 1.25 lakh dwelling units during 1999-2000.

- * The National Housing Bank has proposed a scheme, which entails a reduction in the interest rates for small borrowers. The scheme will be available in towns where Urban Land (Ceiling and Regulation) Act is not applicable. We will provide necessary support to NHB for this purpose. The details of the scheme would be announced by NHB.

20. The development of housing in urban areas also depends heavily on the quality of urban services. Many of our municipal bodies are at present financially too weak to provide basic services. To encourage these bodies to improve their creditworthiness in financial markets, I propose to accord tax-free status to a limited amount of municipal bonds issued each year. A little later, I shall be announcing far reaching tax initiatives to promote housing.

Industry and Infrastructure

21. I am deeply conscious that the last two years have been difficult for Indian industry in the context of growing integration with the world economy and the inevitable uncertainties of the global market place. But we should also be proud of the way Indian industry has surmounted difficult challenges and produced world-class winners in a number of fields such as information technology and pharmaceuticals. The process of corporate and industrial restructuring in the face of new challenges is inevitable. To help this transition, I shall be announcing important tax initiatives to facilitate corporate mergers and amalgamations.

22. The Industries (Development and Regulation) Act will be reviewed and amended so that the primary focus is shifted to development of industry rather than its regulation.

23. The Monopolies and Restrictive Trade Practices Act has become obsolete in certain areas in the light of international economic developments relating to competition laws. We need to shift our focus from curbing monopolies to promoting competition. Government has decided to appoint a Committee to examine this range of issues and propose a modern Competition Law suitable for our conditions.

24. The Prime Minister's Advisory Council on Trade and Industry has made important recommendations regarding knowledge-based industries. The pharmaceutical industry is one of the important knowledge-based industries where we have comparative advantage. We must strengthen our drug industry's research and development capabilities. Government has decided to set up two High Level Committees to review the present drug policy so as to reduce the rigours of price controls where they have become counter-productive and also to identify required support to Indian pharmaceutical companies to undertake domestic R&D. My colleague, the Minister of Chemicals and Fertilizers will be making a separate announcement regarding this initiative. Further, in order to promote foreign direct investment in this sector, Government has decided to permit up to 74% equity under the automatic route.

25. While we devote our attention to the new sunrise industries, we have not neglected established industries like textiles, which employs 380 lakh workers and accounts for about 20% of our manufacturing valued added. The Technology Upgradation Fund Scheme has been approved by the Government and will become

operational from April 1999. For the next five years it will provide a substantial interest incentive of 5% on loans availed by textile units from financial institutions and banks. It will cover weaving, knitting, processing and finishing units, garment manufacturing, cotton ginning and processing and the jute industry. The scheme is being extended to include the spinning industry also.

26. In the National Agenda for Governance, my Government has already proclaimed our commitment to the Handloom sector for providing services, technical and marketing facilities for handloom weavers. In the area of marketing, I propose to introduce a new integrated handloom promotion scheme, Deen Dayal Hathkargha Protshahan Yojana which would encourage processing facilities, new design inputs to weavers and opening new avenues for marketing of handloom fabrics.

27. Government has already undertaken important legislative and other reform initiatives in key infrastructure sectors such as power, telecom, roads and ports.

28. The Sethusamudram Ship Canal Project will provide a shorter sea route between the Eastern and the Western ports of our country. I propose to provide funds during 1999-2000 to examine the techno-economic feasibility of this much awaited project.

Small Scale Industry

29. Last year, I had announced a number of initiatives to improve the availability of credit to the SSI Sector. Credit delivery to this sector continues to pose challenges to our banking sector. I propose the following initiatives to improve the delivery system for credit to SSI units:

- * The composite loan scheme of SIDBI and commercial banks is designed to ease operational difficulties of the small borrowers by providing term loan and working capital through a single window. The limit for composite loans is currently Rs.2 lakh. I propose to increase this limit to Rs.5 lakh.
- * To simplify the computation of working capital limits of SSI units, last year I had announced that for SSI units having an aggregate turn over of Rs.4 crore, working capital limit would be fixed at 20% of the annual turnover. I propose to increase this limit to Rs.5 crore.
- * In line with the recommendations of a high powered committee appointed by it, RBI had advised banks to delegate more powers to branch managers to grant ad hoc limits, to simplify application forms, to fix their own norms for assessment of credit requirement and open more SSI branches. These measures should ease the flow of bank credit to SSI units.
- * To increase the outreach of banks to the tiny sector, lending by banks to non banking finance companies or other financial intermediaries for purposes of on-lending to the tiny sector is being included within the definition of priority sector for bank lending.
- * Inability to provide adequate security to banks and low recovery are often cited as a major constraint in flow of investment credit to SSI units. The problem is more acute for export oriented and tiny sector enterprises. To alleviate this problem, a new credit insurance scheme will be launched.

Science and Technology

30. “Jai Vigyan” is the tribute so aptly paid by our Prime Minister to hail the achievements of our scientists. The time has come to unleash the creative potential of our scientists and innovators at grass roots level. Only then we can make India truly self-reliant and a leader in sustainable technologies. I propose a national foundation for helping innovators all over the country. This Fund, with an initial corpus of Rs.20 crore, will build a national register of innovations, mobilise intellectual property protection, set up incubators for converting innovations into viable business opportunities and help in dissemination across the country.

31. Our research institutions have the capacity to evolve new vaccines that will revolutionise the medical and health systems. We propose to set up a Technology Mission on vaccines to provide a focus to the effort.

32. Our country is endowed with diverse and precious genetic resources, which need to be prudently conserved and managed. Among the 18 hot spots of bio-diversity in the world, two happen to be in India, in the Eastern Himalayas and the Western Ghats respectively. To coordinate policies, research, documentation and legal protection of the country’s rights in this important area, a National Bio-resources Board (NBB) will be set up under the Chairmanship of the Minister of Science and Technology.

Banking

33. Last year I had announced important decisions flowing from the Narasimham Committee Report on Banking Sector Reforms. Subsequently, the Reserve Bank of India has taken further follow up action. I propose to carry forward the reform process:

- * The high level of NPAs in our public sector banks continues to remain a cause of concern. The Debt Recovery Tribunals, which were set up for expeditious adjudication and recovery of debts due to banks and financial institutions, have started showing encouraging results. Government has decided to set up 5 more DRTs and 4 more Debt Recovery Appellate Tribunals. I also propose to introduce a Bill in the current session of Parliament to make certain amendments in the Recovery of Debts due to Banks and Financial Institutions Act to strengthen its provisions.
- * A Working Group has recently been set up by us to devise appropriate strategies for dealing with the problem of restructuring weak banks including their NPAs.
- * The inability of banks to enter into timely compromise settlements of chronic cases of overdue loans leads to locking up of banks’ funds and long drawn litigation in recovery suits. Public sector banks will be encouraged to set up Settlement Advisory Committees so that such chronic cases, specially those relating to the small sector, are settled in a timely and speedy manner. RBI will be issuing necessary guidelines to the banks in this regard.
- * Our banks are required to observe RBI norms for maintaining provisions against doubtful and non-performing assets. These norms have been strengthened in recent years. To assist banks to come up to international

standards of prudential norms I shall be announcing certain changes in the tax deductibility of provisions made.

External Sector

34. To strengthen our external payments situation, we need to revitalise our exports and encourage more non-debt inflows in the form of foreign investment. The following steps will be taken:

- * The existing scheme of export credit in foreign currency is being revamped to make available pre-shipment and post-shipment credit at internationally competitive rates and bring about major simplification of procedures. The RBI will separately announce the details.
- * Studies show that our exporters are handicapped by high transaction costs related to foreign trade licensing, tax procedures and the banking system. I am establishing a high powered committee under the Revenue Secretary to go into this problem and make concrete recommendations for reduction in such transaction costs within three months.
- * In order to make inflows of foreign direct investment hassle free, the Government has decided to expand the list of automatic approvals covering important industrial and services sectors. The expanded list will be announced separately by the Minister of Industry. Wherever FIPB clearance is required, henceforth FIPB will give the decision within 30 days.
- * There have been complaints about slow implementation of foreign direct investment (FDI) approvals. To ensure that such approvals are quickly translated into actual investment inflows and projects, Government has decided to create a Foreign Investment Implementation Authority (FIIA) within the Ministry of Industry, which may also include representatives of State Governments.
- * Households and various charitable and religious institutions hold a huge amount of gold in the country. These are idle assets earning no income for the holders, who often incur costs to ensure security. This is a somewhat anomalous situation considering that the country spends thousands of crore worth of foreign exchange each year to meet fresh demand for gold holding. To mobilise this idle gold, I propose a new Gold Deposit Scheme. Selected banks will be permitted to accept gold deposits and issue interest bearing certificates or bonds which, on maturity, can be reclaimed in gold. This would free depositors from the problems of storage, movement and security for the gold in their possession, while providing them with a regular source of income. For the country, by recycling idle gold, we should be able to reduce our dependence on imported gold. To encourage this process, I propose to exempt the interest on the gold deposit bonds/certificates from Income Tax and the value of assets deposited in the gold deposit scheme from Wealth Tax. Furthermore, any capital gains made on these gold bonds/certificates through trading or at redemption will be exempt from capital gains tax. I would also urge all State Governments to consider exempting movement of gold covered under the scheme from octroi, sales tax, stamp duty and similar levies. I must point out that the scheme will not enjoy

amnesty. The Reserve Bank will take necessary steps to implement the scheme.

- * In my last Budget, I had proposed a set of initiatives to strengthen the participation of Non-Resident Indians (NRIs) in the development of our country. Encouraged by their response, I now propose a few more initiatives:
- * We shall extend the facility of automatic approval for investment up to 100% by NRIs/OCBs for all items, except those which attract notified FDI equity caps, or compulsory licensing or public sector reservation under the Industrial Policy or are reserved for the small scale sector.
- * Our major stock exchanges have screen-based automated trading in securities. It is now technically possible for them to open trading terminals abroad, which would facilitate the participation of NRIs in our capital markets. I have asked the Securities and Exchange Board of India (SEBI) to work out the modalities for this purpose.
- * The existing RBI approval mechanism for NRI investment in Indian mutual funds will be simplified to a post-facto reporting mechanism.

Capital Market

35. A vibrant capital market is essential for providing the much-needed funds for our infrastructure sector. Infrastructure projects need long term funds, which, in turn, require a deep and well-functioning debt market. With a view to modernising the debt market and introducing paperless trading in this segment also, Government proposes to abolish stamp duty on transfer of debt instruments within the depository mode.

36. Lately, there has been considerable debate on the importance of good governance of Indian corporates. It is increasingly being realised that if investors have to be drawn back to the capital market, companies have to put their houses in order by following internationally accepted practices of corporate governance. This is necessary to enhance investor confidence. To help promote this trend, I propose to institute a National Award for Excellence in Corporate Governance.

37. The Deepak Parekh Committee appointed by the UTI has made wide-ranging recommendations, including for restructuring of the US-64 scheme and for granting tax incentives. We are taking necessary action. I will come to the tax incentives shortly. The details of the restructuring are being announced separately in a press release. This should lift the cloud of uncertainty from the capital market and restore confidence.

38. My tax proposals will also greatly strengthen mutual funds and thereby help bring small retail investors back into the capital market. It has also been decided to set up a joint mechanism between SEBI and the Department of Company Affairs for taking stringent action against unscrupulous promoters who raise money from investors and misutilise them.

Expenditure Management

39. The high rate of growth of non-developmental expenditure by Government is a growing and critical source of concern. I propose the following initiatives:

- * The most effective and lasting solution to this problem is to begin the process of downsizing Government. We are making an immediate beginning by

abolishing four Secretary-level posts through a process of merger and rationalisation of Central Government departments. This will take effect on April 1, 1999.

- * To carry this process forward in a systematic way towards reducing the role and the administrative structure of the Government, we will constitute an Expenditure Reforms Commission headed by an eminent and experienced person.
- * In preparation for the next Budget, I propose to initiate a system of Zero Base Budgeting.
- * To promote transparency and curb the growth of contingent government liabilities, Government has decided to establish a Guarantee Redemption Fund with an initial corpus of Rs.50 crore. I encourage all State Governments to set up similar Funds.

Public Sector Reform/Disinvestment/Privatisation

40. Government's strategy towards public sector enterprises will continue to encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestment or strategic sale and devising viable rehabilitation strategies for weak units.

41. The disinvestment programme of the Government draws primarily upon the recommendations of the Disinvestment Commission. The Commission has so far submitted 8 Reports containing recommendations for 43 Public Sector Enterprises (PSEs). These recommendations are in various stages of implementation. Government will be referring more PSEs to it for its valued opinion. In 1999-2000, I propose to raise Rs.10,000 crore through the disinvestment programme. This will help the Government to fund the requirements of social and infrastructure sectors. Equally important, it will lead to improvements in productivity and profitability of these enterprises and also to the further development of domestic capital markets.

42. Government have been providing budgetary support to Central PSEs for rationalising manpower under the Voluntary Retirement Scheme (VRS). However, such assistance has generally been restricted to loss making enterprises. There are a number of enterprises which are marginally profit-making and which need to reduce manpower to remain viable but do not have the resource to finance such rationalisation exercises. Government would encourage such enterprises to raise money from banks against Government guarantees and interest subsidy.

43. In order to reduce the burden on budget on account of the implementation of VRS, Government will also encourage PSEs to issue bonds to the workers opting for VRS. Government will guarantee the repayment of such bonds and also reimburse fully the interest payments. RBI will be requested to issue necessary instructions to banks to accept bonds as collateral for loans to workers who may need assistance.

44. The need for timely and reliable statistics for policy formulation and planning cannot be over emphasised. There is reason to believe that with progressive dismantling of the system of economic controls, the quality of data flows has weakened. Government has decided to establish a National Statistical Commission to critically examine the deficiencies of the present statistical system with a view to recommending measures for a systematic revamping of the system.

45. We stand today at the edge of the second millennium. We must, therefore, prepare for the opportunities and challenges of the next century and millennium. It is time to seriously debate and decide on the second generation reforms that we must put in place to make India economically strong and fully capable of competing successfully in the evolving world order. To further this process, I plan to bring a discussion paper before Parliament before the end of this Budget Session. My goal is to help build a consensus on the basic issues so that we can act more decisively to raise the growth in income, output and employment in our economy to a higher, sustainable level.

Revised Estimates for 1998-99

46. The non-Plan expenditure has increased by Rs.17,616 crore. There is a shortfall of Rs.3,631 crore under Plan. The normal non-Plan expenditure of the Government departments has increased only by Rs.2,539 crore. The other increases are on account of loans to States and UTs against net Small Savings collections, Rs.9,588 crore, pension, Rs.2,711 crore, interest payments, Rs.2,248 crore, and postal deficit, Rs.530 crore.

47. Net tax revenues for the Centre are estimated at Rs.1,09,537 crore against Rs.1,16,857 crore budgeted, reflecting a shortfall of Rs.7,320 crore. The shortfall is mainly due to lower customs revenue on account of both lower volume and unit-price of imports and lower excise revenue resulting from low industrial growth. Disinvestment receipts are expected to be Rs.8,000 crore against Rs.5,000 crore budgeted.

48. The fiscal deficit is thus likely to increase to 6.5% of GDP from the budget target of 5.6% on the basis of comparable GDP estimates. However, if the increase over budget in small savings loans to States and Union Territories is excluded, the adjusted fiscal deficit would be 5.9%.

Budget Estimates for 1999-2000

49. In the budget estimates for 1999-2000, the total expenditure is estimated at Rs.2,84,003 crore, of which Rs.77,000 crore is for Plan and Rs.2,07,003 crore for non-Plan.

Plan Expenditure

50. The budget support for Central, State and UT Plans has been placed at Rs.77,000 crore, marking an increase of Rs.8,629 crore over revised estimates 1998-99. Following the direction of the Prime Minister, the Plan for 1999-2000 focuses on basic human development needs such as education, health care, social welfare, housing, and water supply. Thus, out of the total Gross Budgetary Support of Rs.44,000 crore for the Central Plan 1999-2000, Rs.31,035 crore has been provided to 18 Ministries/Departments covered by the Prime Minister's Special Action Plan. Total Central Plan outlay at Rs.1,03,521 crore will be more by Rs.15,039 crore from the last year's level of Rs.88,482 crore. Gross budgetary support for the Central Plan is being enhanced from Rs.38,263 crore in the revised estimates 1998-99 to Rs.44,000 crore.

51. Compared to revised estimates 1998-1999, outlay for Plan programmes has been significantly increased in certain priority sectors. For example, the increase is 34.5% in the Agriculture and Allied Activities and 21.9% in Social Services.

52. Central Plan assistance to States and Union Territories in 1999-2000 is placed at Rs.33,000 crore as compared to Rs.30,108 crore in the revised estimates 1998-99. Assistance for Basic Minimum Services and Slum Development Schemes is proposed to be enhanced from Rs.3,684 crore to Rs.4,043 crore.

53. Last year, I had announced a non-lapsable pool for the North East. I am glad to inform you that we have already released Rs.98 crore for projects in the North East out of the savings from the budget of different Central Ministries.

Non Plan Expenditure

54. Non-Plan expenditure in 1999-2000 is estimated to be Rs.2,07,003 crore compared to Rs.2,13,541 crore in revised estimates 1998-99. This would have actually been Rs.2,32,003 crore but for a change in the system of accounting of loans to States and UTs against net Small Savings collections with effect from 1.4.99. The changeover, which is in the interest of transparency and viability of the Small Savings schemes, is being made in deference to a suggestion in the Inter State Council in December 1998 on delinking the small savings from Central Government's fiscal deficit concerns. A Committee set up under the chairmanship of Shri R.V. Gupta has gone into the issue. Based on the Committee's recommendations and with the concurrence of the Comptroller and Auditor General of India, the transactions will now be under a newly created National Small Savings Fund in the Public Account, which will reflect the Treasury Banking nature of these operations. A copy of the Committee's report is being placed in the library of the Parliament for Hon'ble Members' information.

55. Major items of increase in non-Plan expenditure are Interest payments, Rs.10,752 crore, Defence expenditure, Rs.4,494 crore, and grants to States, Rs.3,621 crore. A provision of Rs.1,735 crore has been made for non-Plan loans to public sector enterprises mainly for payment of salaries and wages to the employees of sick and convalescent PSUs.

56. Rs.45,694 crore are being provided for Defence expenditure against Rs.41,200 crore in revised estimates 1998-99. Further need based budgetary support will be provided during the course of the year.

Revenue Receipts

57. Before I proceed to detail my tax proposals, I would like to highlight the position of fiscal deficit in 1999-2000, if the existing rates of taxes and tariffs are continued. Gross tax revenues would then be Rs.1,67,526 crore and the Centre's net tax revenue would be Rs.1,22,730 crore. Non-tax revenues are estimated to increase from Rs.48,128 crore in revised estimates 1998-99 to Rs.50,475 crore this year. The net revenue receipts for the Centre, including non-tax receipts, would increase from Rs.1,57,664 crore in revised estimates 1998-99 to Rs.1,73,205 crore in 1999-2000. After taking into account receipts of Rs.10,000 crore from disinvestment of equity in public sector enterprises, the fiscal deficit would be Rs.89,713 crore. This is unacceptably high. I shall now come to my proposals to reduce the deficit.

PART B

58. Sir, I now present my tax proposals.

59. I will start with indirect taxes, with excise first. The multiple rates of indirect tax are generally recognised to be a major source of misclassification, tax evasion and avoidance and cumbersome litigation. The multiplicity also encourages inefficient allocation of resources. Over a 100 countries in the world now enjoy the benefits of a Value Added Tax (VAT) with very small number of rates in each case.

60. In my last Budget, I had clearly stated my resolve to rationalise the rate-structure so as to reduce the multiplicity of rates and ensure convergence towards a central rate with a merit rate and a demerit rate. Most of our major industry associations have also called for a triple rate excise structure.

61. My excise proposals today largely fulfil my intent announced 9 months ago. Specifically, I propose to reduce the existing 11 major ad valorem rates to 3, namely, a central rate of 16%, a merit rate of 8% and a demerit rate of 24%. To achieve this, I propose to:

- * Merge the existing rates of 5%, 10% and 12% into the existing 8% rate;
- * Create a new rate of 16% by merging the existing 13%, 15% and 18% rates into it; and
- * Fix a new rate of 24% in substitution of the existing rate of 25%.

Honourable Members may notice that I have reduced the previously announced central rate of 18% to 16%. This means lower costs and prices. There is also a happy coincidence that this rate is almost identical to the rate of one-sixth (Shadbhaga) advised by Kautilya, the noble sage of Pataliputra, which also happens to be my birthplace.

62. Considerations of revenue in this difficult year, however, persuade me to fix 2 slabs of surcharge (special duty of excise) of 6% and 16% over the rate of 24% on commodities which today carry a rate of duty of 30% and 40%. Thus total excise on these commodities will remain unchanged. Petrol will continue to be taxed at 32%. The surcharge structure gives a clear indication that in future the Government would gradually phase them down to the demerit rate of 24%.

63. As a result of these changes the excise rates for many commodities will either come down, or remain unchanged or be adjusted marginally upwards by a 1% point. In the one major area of machinery and capital goods where the basic rate is rising from 13% to 16%, I must point out that excise on such products are eligible for MODVAT credit in the hands of the buyer. Furthermore, to help the capital goods sector, my customs duty proposals include removal of the long standing anomaly by which the duty rate on the major input, steel, is higher than the duty rate on finished capital goods. I must also emphasise that this major reform of the excise rate structure is broadly revenue neutral. It does not impose additional tax burden on industry as a whole. I am confident this major reform will stimulate productivity, growth and employment.

64. Mr. Speaker, Sir, I now move on to my next proposal. I propose to garner additional revenue by way of an additional duty on High Speed Diesel Oil (HSD). Currently, international and domestic prices of crude oil and petroleum products are unusually soft, and it is felt that raising some additional revenue through this commodity would be an equitable method of resource mobilisation. Therefore, I propose an additional duty of Re. 1 per litre on imported and domestic HSD, the revenue from which will accrue entirely to the Centre. Of this duty, I propose to allocate half to support the initiatives in rural development and social sectors. The other portion of 50 paise of this duty as also the duty of Re.1 per litre levied with effect from 2.6.1998 will be converted into a statutory cess and transferred to the Central Road Fund. 30% of the Fund will be transferred to the State Governments for development and maintenance of State Roads. The balance amount will be utilised for development and maintenance of National highways and expressways and by the Ministry of Railways for construction of Railways over-bridges and Railways safety works at unmanned Railways crossings. This will cover the gap in the plan resources of the Ministry of Railways for the year 1999-2000. It is estimated that we will be able to collect an aggregate amount of Rs.4,591 crore as additional duty of excise and Rs.363 crore as countervailing duty on domestically produced and imported HSD over the year. The Ministry of Petroleum & Natural Gas will announce consequential changes in the price of HSD effective from midnight tonight. This will also fulfil in a large measure the will of Parliament reflected in Resolution dated 13th May, 1988, which contemplated earmarking a portion of the excise and customs duties on petrol and diesel to raise resources for development of roads.

65. In the last budget the MODVAT adjustment allowed to manufacturing units had been capped at 95%. I propose to lift this cap on MODVAT claims and restore it to 100%.

66. Mr. Speaker, Sir, my budget proposals also contain a package for the Small Scale Industry (SSI) sector consisting of the following components:

- * Under the specific excise duty concession schemes for units manufacturing cosmetics, refrigeration and air-conditioning equipment, I propose doubling of the turn-over under the eligibility criteria from Rs.50 lakh to Rs.100 lakh; doubling of the duty free exemption slab from Rs.15 lakh to Rs.30 lakh; and, an increase from Rs.15 lakh to Rs.20 lakh in the clearances eligible for duty at half the normal rates.
- * I propose to extend the benefit of the SSI exemption limits to small-scale units producing cotton yarn.
- * I propose to exempt small job workers engaged in printing of glazed tiles from the incidence of excise duty.
- * Currently, SSI units are not eligible for exemption from excise duty on products bearing the brand name of another manufacturer. I propose to extend the SSI exemption to goods bearing a brand name of another manufacturer, when produced by units located in the rural areas. The details of the scheme will be announced shortly.

67. Under the current procedure, all manufacturing units are required to pay excise duty at the time of clearance of goods from their manufacturing premises. As

a measure of further simplification of administrative procedures, I propose to permit SSI units to pay excise duty on a monthly basis with effect from 1.6.1999. Besides constituting a significant step in the simplification of procedures, this change will also improve the liquidity position of manufacturing units in the SSI Sector.

68. I am proposing a similar procedural relaxation in respect of the requirement of maintenance of excise records by factories. Henceforth, factories paying more than Rs.5 crore excise duty in a year, will not be required to maintain their records in a specific format prescribed by the excise department; and, the records maintained in the normal course of their functioning would be accepted as adequate. This amendment will take effect from 1.6.99.

69. Currently, there are several commodities, which are enjoying either total exemption from excise duty or are enjoying concessional excise duty. These concessions were sanctioned in the past with reference to the specific circumstances relating to that commodity prevailing at that point of time. With the lowering of general rate of duties, the need for such exemptions and concessions has abated. I propose to set up an Expert Committee to examine and advise on where the exemptions should be retained and where they should be integrated into the new rate structure. Their report should be available for consideration before the next budget.

70. As Hon'ble Members are aware, Government is empowered to grant exemptions from excise duty on an adhoc basis. I do not consider such wide discretion necessary. Hence, I propose to abolish Government's power to grant adhoc exemptions of excise duty except for goods of strategic nature, or for charitable purposes. I propose abolition of similar powers on the customs duty side also.

71. Mr. Speaker, Sir, I now turn to my proposals relating to customs duties. My proposals here reflect a balance of differing considerations. On the one hand, we are committed to a calibrated integration of our economy with the world economy. This would entail further phasing down of our customs duties to Asian levels. On the other hand, is the need to raise revenue and the fact that in a year of exceptional turbulence and uncertainty in the world economy, our industry should be cushioned against unusual surges of competitive pressure from imports.

72. Sir, a special customs duty of 2% was imposed in the budget of 1996-97, and a further special customs duty of 3% was imposed on certain items in 1997-98. The special customs duty of 5% is in force till 31.3.1999. I have in the course of another discussion assured this House that the period of validity of this special customs duty will not be extended. I announce the discontinuance of the 5% special customs duty with effect from 28.2.1999.

73. After careful examination of various possibilities, and close interaction with the apex organisations of Commerce and Industry, I propose to reduce the existing 7 major ad-valorem rates of customs duty to 5 basic rates. The new rates will be:

- 5% - which will remain unchanged;
- 15% by substituting the existing 10% rate;
- 25% by merging the 20% and 25% rates;

- 35% by merging the 30% and 35% rates;
- 40% - which will remain unchanged.

74. The one industry in which a special regime of customs duty will apply is the Information Technology sector. The Prime Minister has repeatedly emphasised the importance of this sector for the country's development in the new century and millennium. Accordingly, I am proposing significant reduction in duty rates of a number of critical inputs in this sector, such as ICs and micro assemblies, storage devices and CD Roms, telecom equipment and optical fibres.

75. To garner revenue to meet the country's irreducible needs, I propose a uniform surcharge of 10% on all commodities, excluding the following categories:

- Crude Oil and Petroleum Products;
- Items attracting 40% rate of basic duty;
- Certain GATT- bound items;
- Gold and Silver;

The effect of the surcharge would be to raise the basic rate by 10%. Thus a basic rate of 5% would become 5.5%, 15% would become 16.5% and so on.

76. Taking into account that special customs duty is being discontinued, and that crude oil and petroleum products are exempt from surcharge, the effective import duty rates on these products will stand reduced. This is consistent with the Government's established policy of rationalising indirect taxes on these products in an agreed time-frame.

77. By exempting items attracting 40% rate of basic duty from the surcharge, there is a modest but clear reduction in the peak rate of protective custom duty from 45% to 40%.

78. Mr. Speaker, Sir, conceptually, I am averse to zero custom duty, since our domestic industry generally merits some minimal protection. I have reviewed the entire list of such commodities and to begin with I am proposing the imposition of 5% rate of duty for some of these commodities. In order to mitigate the impact of the incidence of 5% rate of duty on such items which have previously enjoyed exemption, I propose to exempt this category from the existing 4% special additional duty.

79. I am rationalising the import duty structure of project imports. Under this rationalisation, power generation, coal mining, refinery, telecom and fertilizer projects will now attract a nominal basic customs duty of only 5%. However, they will be subject to applicable rates of countervailing duty. The net impact of these changes will not be significant in most cases. Mega Power Projects also will be an exception to this.

80. Mr. Speaker, Sir, as a result of the various proposals made in this budget on the indirect taxes, the estimated revenue in 1999-2000 would be Rs.1,17,625 crore, including a component of net additional resource mobilisation of Rs.6,234 crore.

81. Last year, I had announced the setting up of an Authority for Advance Rulings for Excise and Customs. The necessary legislation has been included in this Finance Bill. Drawn on the lines of the Advance Rulings Authority on the Direct Taxes, the proposed Authority would provide binding rulings on important issues, so that intending investors will have a clear-cut indication of their duty liability in advance.

82. The Central Board of Excise & Customs has adopted a "Vision Document" and the "Citizens Charter" which together present a blue print for the future and the service standards that can be expected of the Customs and Excise Department. The compliance of the service standards set out in the Charter is being closely monitored. The Commissioners of Customs and field level officers have been directed to enhance the quality of their service and have also been told that any non-compliance would be viewed adversely.

83. On the central excise side, the computerisation of assessment and audit operations is being given focussed attention, and before long, electronic filing of returns is proposed to be put into operation.

84. Copies of the notifications giving effect to proposed changes in customs and excise duties will be laid on the Table of the House in due course.

85. Mr. Speaker, Sir, I now turn to the proposals on the direct tax side.

86. With growing liberalisation of the economy has come the need for industrial restructuring so that companies can focus better on their core activities. The corporate sector has been voicing the need for a flexible fiscal policy for regulating business re-organisations. In response to this need, I propose a comprehensive set of amendments to the Income Tax Act to make such business re-organisations fully tax neutral. In the case of amalgamation of companies, the existing requirement of routing the proposal through Board of Industrial and Financial Reconstruction is being removed. The legal provision is proposed to be amended so that the eligibility for tax concessions is only contingent upon a minimum of 75% of the fixed assets of the amalgamating company being absorbed in the amalgamated company, and subject to the condition that the amalgamated company will continue the business of the amalgamating company for a minimum of 5 years. An enabling provision will be provided through the amendment of the Income-Tax Act, for the detailed guidelines to be issued subsequently under the powers available from the statutory provision.

87. In the case of de-mergers, I propose to introduce a legal provision so as to permit the carry forward of accumulated losses and unabsorbed depreciation from the de-merging company to the resultant company. I also propose to amend the legal provisions so that, neither the companies involved, nor the shareholders, are subject to capital gains tax as a result of the transactions. Further, it is proposed that all fiscal concessions will survive for the unexpired period in the case of amalgamation and de-mergers

88. Mr. Speaker, Sir, Government has been greatly concerned about the persisting sluggishness in the capital markets. Government is also distressed to note the negative perception of some sections of the investing public in regard to the

schemes operated by the Unit Trust of India. Based on the recommendations of the Committee headed by Shri Deepak Parekh, and also taking into account a large number of suggestions offered by various experts in the field, I now propose a substantial fiscal package to restore the confidence of the shareholders in the UTI, and more generally to invigorate the capital markets.

89. First, I propose to fully exempt from income tax all income from UTI and other Mutual Funds received in the hands of the investors. This will not only reduce the incidence of tax, but will eliminate the inconvenience faced by small investors in paying tax and claiming refund in connection with income derived from such investments.

90. Presently if the income in the hands of the investors is fully exempt from tax, this income is subjected to dividend tax under Section 115 (O) of the Income Tax Act, at the stage of distribution of the dividend by UTI or mutual funds. As a departure from the policy, and as the second element of the package, I propose to continue for 3 years the exemption for US-64, Scheme as also for all open-ended equity-oriented schemes of UTI and mutual funds - with more than 50% investment in equity - from dividend tax. However, income distributed by Mutual Funds, where the equity investment is less than 50%, will become subject to the 10% dividend tax.

91. As a result of these two tax initiatives, investments in UTI and other Mutual Funds will become much more attractive and equity-oriented schemes will be relatively more attractive than schemes where equity investment is less than 50%. This should encourage the return of small investor to the capital market and revive confidence.

92. A complaint has often been voiced that there is discrimination between the rate of long-term capital gains tax on transfer of shares and securities as between residents and non-residents. The current rate of long-term capital gains tax for resident Indians is 20% linked to a notional value of capital gains, computed with reference to a Cost of Inflation Index. However, the rate of long-term capital gains tax for non residents is only 10%. In response to this complaint, I now propose to amend the law so as to cap the long-term capital gains tax for resident Indians on transfer of shares and securities, at the 10% rate.

93. In some of the 'sunrise' sectors of the economy, the management is adopting a policy of offering stock options and Sweat Equity, to their employees. The tax implications of such transactions are somewhat ambiguous. Therefore, I propose in this budget to make certain amendments in the law, to put it beyond doubt that such stock options will be taxed as a perquisite at the time of exercise of the option by the employee, and later as capital gains at the time of sale of the security. These amendments, I expect, will remove the grey areas which exist in the current law relating to such transactions.

94. For boosting high-tech sectors and supporting first generation entrepreneurs, there is an acute need for higher investment in venture capital activities. Very recently we have relaxed the guidelines under the existing scheme by removing the requirement for time-bound investment and minimum lock-in-period of funds. I am also harmonising the guidelines for registration of venture capital activity with the Central Board of Direct Taxes, with those for registration with the

Security and Exchange Board of India. This will ensure uniformity in norms for registration with both the organisations. I am confident that these initiatives will increase the attractiveness of the Venture Capital Scheme and induce high net-worth investors to commit their funds to the 'sunrise' sectors, particularly, the Information Technology Sector.

95. Very recently, the Companies Act, 1956 has been amended to permit transactions relating to buy-back of shares. There is some ambiguity in the interpretation of the law as to whether such transactions would be treated as subject to dividend tax in addition to capital gains tax. In view of this, I propose to amend the law to put it beyond doubt that on buy-back of shares, the shareholders will not be subject to dividend tax, and would only be liable to capital gains tax.

96. Mr. Speaker, Sir, I wish to now turn to another area of special focus in this budget, namely the Housing Sector. In regard to this sector, I propose a comprehensive package of fiscal incentives focussed at:

- * the middle class investors wishing to purchase a dwelling unit;
- * the promoters of middle income housing projects; and
- * the housing finance companies.

97. As the first element of this package, I propose that the interest on a loan for a self-occupied property be exempted from tax up to a ceiling of Rs.75,000, increased from the current ceiling of Rs.30,000. This concession will encourage middle class investors to take loans to purchase modest dwelling units of their own.

98. The second element of this incentive package relates to the scheme for housing projects for enjoying a tax holiday under Section 80IA of the Income Tax Act. The existing provision, inter-alia, requires that the built-up area of dwelling units should not exceed 1000 sq. feet. There have been many representations that in towns other than Mumbai and Delhi, the land cost is relatively less, and therefore, for the same capital expenditure investors can afford to purchase dwelling units of slightly larger areas. In view of this, it has been represented that the ceiling on built-up areas for dwelling units in approved projects be increased from 1000 sq. ft to 1500 sq. ft at all locations except Mumbai and Delhi. I propose to accept this suggestion and make suitable modifications in the law. This amendment in the scheme for treating housing projects as infrastructure will, I believe, also give a significant fillip to construction activities in the smaller towns.

99. For the construction activity to pick up any significant degree of momentum, it has to be ensured that housing finance companies stay financially viable. Currently, such housing finance companies are subject to tax on interest on loans, on accrual basis. In order to lessen the burden on such housing finance companies, I propose to amend the law so that the income of such companies will be taxable on actual basis, rather than accrual basis.

100. A significant number of individuals seeking accommodation in the major cities are the employees of the business sector. I feel that it is necessary to encourage the business sector to invest in housing for their employees so as to add to the net housing stock. In this spirit, I propose to increase the depreciation rate from 20% to 40% on new dwelling units purchased by the business sector for its employees.

101. This entire package of fiscal incentives for the housing construction sector will, I believe, be a powerful force for revival of the entire economy. The construction sector has very strong linkages with several other major sectors, notably steel and cement. A general upsurge in construction activities will not only increase the corpus of housing stock in the country, but will give a substantial fillip to industrial activity.

102. Apprehensions have been expressed in certain quarters regarding the incidence of a high level of Non Performing Assets (NPAs) in some of the banks. I am of the view that the banks should make every effort to clean up their books and to remove any misgivings, which may exist about the transparency of the accounts. To assist in this direction, Mr. Speaker, Sir, I propose to make tax deductible such amounts as are provided by banks as 'doubtful debts' subject to a maximum of 5% of the such aggregate 'doubtful debts', in any one year. This concession will be available for a period of 5 years for such 'doubtful debts' as are identified under the prudential norms prescribed by the Reserve Bank of India.

103. I propose to amend the law so that tax concession will be available to a loanee on interest payment to a co-operative bank on actual basis rather than accrual basis. This proposal will induce the loanees to make timely repayment of their interest liability in order to avail of the tax benefit, and correspondingly, the financial condition of the co-operative banks can be expected to improve.

104. Mr. Speaker, Sir, I now turn to the proposals relating to the Infrastructure and Industry sectors.

- * I propose to extend the fiscal incentives by way of the tax holiday under Section 80 IA of the Income Tax Act, to cold chains for agricultural produce.
- * The financial condition of most of State Electricity Boards is extremely precarious. Many of the State Electricity Boards wish to remedy the situation by unbundling generation, transmission and distribution activities to separate companies. I propose to treat the activities of transmission and distribution of power, set up after 1.4.1999, as eligible activities for fiscal incentives available to infrastructure units. I am sanguine that this proposal will facilitate the restructuring and rehabilitation of the State Electricity Boards.
- * Currently, the tax exemption given under Section 80 IA of the Income Tax Act to the infrastructure sector and other core sectors, has to be availed of within a given maximum period. This given maximum period has come to vary from sector to sector. In order to bring about uniformity, I propose the amendment of the Income Tax Act so as to provide a maximum period of 15 years in which units can avail of the tax concessions offered to infrastructure and other core sector units.
- * Mr. Speaker, Sir, I am conscious of the fact that, despite all our announcements, the industrial development in North Eastern Region has not come up to our expectations. To give industrialisation a fillip in this area of the country, I propose a 10 year tax holiday for all industries set up in Growth Centres, Industrial Infrastructure Development Corporations, and for other specified industries, in the North Eastern Region. I would urge the industrial entrepreneurs from this part of the country to seize the

opportunity and set up modern, high value added manufacturing units in the region.

105. The Indian entertainment industry, which includes films, music and television software is growing by leaps and bounds. I believe that with our creativity and our talent, India has the potential to become a global media superpower. We have done remarkably well in the field of computer software development and exports, and the same can be achieved in the development and export entertainment industry products, specially films, TV, software and music. With a view to facilitating India becoming a super power in this sector, I am including a number of measures in the budget. My aim is to give similar facilities and tax benefits to this sector as are available to the export of goods and merchandise under section 80HHC.

106. Let me assure you that it would be our endeavour to support the entertainment industry “Dil Se”, and I am sure that no longer would the industry have to ask the government “Hum Apke Hain Kaun”?

107. Mr. Speaker, Sir, we are all conscious of the fact that the Information Technology sector is going to be the sector of the future. The immediate crisis, which is looming over this sector, is connected with the Y2K Problem, which will hit us at the close of the current calendar year. I get the impression that the corporate sector is not adequately seized of the dangers which lie ahead on account of this problem. In these circumstances, to assist the business sector to overcome the Y2K Problem, I propose that all expenditure incurred in making their systems Y2K compliant be allowed as revenue expenditure in the next financial year. I urge the business sector to avail of this concession and make every effort to remedy the defect in their software systems, so that their valuable databases do not spin into chaos.

108. Under the current law, a weighted deduction of 125% of the expenditure made on in-house R&D is available to corporate houses up to 31.3.2000. Representations have been received that this period is too short for any company to plan its R&D programme. I propose to extend the concession for in-house R&D up to 31.3.2005. Further, I propose to extend a similar concession of permitting a weighted deduction of 125% of expenditure for R&D Projects entrusted to research laboratories and universities. In the globalised economy, the future is for those who are in the vanguard of development of technology. In view of this, I would urge the corporate sector to avail of this facility to the fullest extent.

109. In the last few years, the direct tax department has undertaken a concerted drive to extend the national tax base. As a method of identifying potential taxpayers, the “One by Six” scheme was extended to 35 cities in 1998-99. This Scheme has given very satisfying results. Consequent upon the launching of this scheme, the number of tax assesseees has risen from 120 lakh to 140 lakh in the period of one year. It is the assessment of the department that there is considerable scope for further registration of tax assesseees. In view of the favourable results of the scheme, I now propose to extend this scheme to 19 more cities in the country having a population of more than 5 lakh.

110. Since the last budget, the Income Tax department has undertaken a drive for issue of PAN Numbers to the tax-paying applicants. The response of this scheme

has been overwhelming, and we have received as many as 168 lakh applications. The requisite PAN Numbers have already been issued to 75 lakh taxpayers and we are confident that the remaining applications will be disposed in the next few months.

111. Mr. Speaker, Sir, I will now like to highlight the proposals which are targeted at those sections of society which require Government's special attention. First, I propose that the deduction for medical insurance premia for senior citizens be raised from the current level of Rs.10,000 to Rs.15,000 and tax deduction for treatment of specific diseases be increased to Rs.60,000. Considering the fact that medical and hospitalisation costs have risen and life expectancy has also improved, the general insurance industry intends to increase the upper ceiling of the sum insured under the mediclaim policy from the existing level of Rs.3 lakh to Rs.5 lakh, and the upper age limit for coverage to 80 years from the existing 75 years. Second, I propose that expenditure made in respect of hostel projects for working women be eligible for deduction from taxable income under Section 35AC of the Income-Tax Act. Third, I propose that pension received by the recipients of the different gallantry award winners, and the family pension received by their heirs, be exempted from income tax.

112. Mr. Speaker, Sir, I now submit my last proposal on direct taxes. I face the difficult task of containing the revenue and fiscal deficits on the one hand, and on the other meeting the growing development expenditure. I propose to fulfil this task and also ensure equitable burden sharing. I am making a modest demand only on those sections of our society who have the capacity to pay while exempting low-income earners. With these considerations, I propose to impose an across-the-board surcharge of 10% on Corporate Tax, and also a 10% surcharge on all other categories of assesseees. In respect of individuals and Hindu Undivided Families, the applicability of the surcharge is limited to those having total income of Rs.60,000 or more. In effect, this surcharge will mean an increase of a marginal 2% in the 20% slab & 3% in the 30% slab. It would leave the rate in the 10% slab unchanged. This is in the nature of a temporary surcharge. I trust that the House and our citizens will appreciate the circumstances in which I have had to make this proposal.

113. To sum up, Mr. Speaker, Sir, as a result of the various proposals made in this budget on the direct taxes, the estimated revenue in 1999-2000 would be Rs.59,235 crore, including a component of net additional resource mobilisation of Rs.3,100 crore.

114. I now have something to say on behalf of my colleague, the Minister of Communications. Postal Service is highly employment intensive and salary & allowances constitute a major part of the operating expenses of the Postal Department. A revision of tariff for some postal services has, therefore, become unavoidable. However, in the interest of the common man and the role of the postal services in easy dissemination of news and information there will be no change in the tariff for Postcard, Money orders, Book packets containing printed books and Registered newspapers. However, the rate of Printed Postcard is being raised from Rs.1.50 to Rs.2.00, of Competition Postcard from Rs.3.00 to Rs.4.00, of Inland letter from Rs.1.50 to Rs.2.00, of Book pattern and sample packets from Re.1.00 to Rs.2.00 for first 50 grams or part thereof and from Rs.2.00 to Rs.3.00 for every additional 50 grams or

part thereof, and Parcels from Rs.10.00 to Rs.12.00 for a weight not exceeding 500 grams or part thereof and from Rs.10.00 to Rs.15.00 for every additional 500 grams or part thereof. There are also certain other changes, which are explained in the Memorandum circulated along with the budget documents. The changes would take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield additional revenue of about Rs.145 crore in a full year and about Rs.121 crore during 1999-2000. Even this modest increase which is necessary for sustaining postal development, will only partially meet the cost of various services.

115. As a result of the postal tariff revision, total expenditure of the Central Government for the year 1999-2000 would be marginally reduced to Rs.2,83,882 crore while with my tax and other proposals, net revenue receipts and non-debt capital receipts would increase to Rs.2,03,927 crore. The revenue deficit is placed at Rs.54,147 crore, while the fiscal deficit is placed at Rs.79,955 crore. This amounts to 2.7% and 4.0% respectively on the basis of the new series of GDP announced by Central Statistical Organisation and after excluding the payment of the share of small savings collection to State Governments. Based on the old series of GDP and excluding the payment of the share of small savings collection to State Governments, the percentage works out to 3.0% and 4.4% respectively.

116. With the Budget for 1999-2000, we will have set in motion a medium-term strategy for restoring the fiscal health of our economy. This budget proposes to reduce the revenue and fiscal deficits by 0.7% and 0.6% of GDP, respectively. At this rate of reduction, the revenue deficit will be eliminated in 4 years and the fiscal deficit will have declined below 2% of GDP. The budget proposes major reform of our excise taxes. In the medium-term we will move to a single rate and a full-fledged VAT system. Our customs duty structure will be phased down to Asian levels in 5 years. During this period Indian industry will have restructured and become fully competitive in world markets. Our knowledge-based industries will generate lakhs of jobs. The gains from competition and productivity growth will drive our exports to new heights. Over the same period our physical and human infrastructure will be raised close to world class. Above all, the basic needs of all our people for food, shelter, health, education and employment will be met within a decade from now.

117. These achievements will transform India into a genuine economic super power by the year 2020. The twenty-first century belongs to us.

118. In the words of the Prime Minister Shri Atal Behari Vajpayee -

आँखों में वैभव के सपने,
पग में तूफानों की गति हो,
राष्ट्रभक्ति का ज्वार न रुकता,
आए जिसजिस की हिम्मत हो॥

With dreams of prosperity and marching at a stormy pace, the tide of patriotism will not recede. Let the courageous come forward to join me.

119. Mr. Speaker, Sir, with these words, I commend the budget to this august House.